

PRESERVATION ALLIANCE OF NEW ORLEANS, INC.
d/b/a
PRESERVATION RESOURCE CENTER OF NEW ORLEANS

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED JUNE 30, 2011 AND 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **FEB 22 2012**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS.....	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities, Year Ended June 30, 2011	4
Consolidated Statement of Activities, Year Ended June 30, 2010	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
ACCOMPANYING SCHEDULE.	
Schedule of Expenditures of Federal Awards	18
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	19-20
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	21-22
SCHEDULES OF FINDINGS AND QUESTIONED COSTS	23-25



ROBERT W. HIENZ, C.P.A.
ANTHONY J. MACALUSO, JR., C.P.A.

DAVID V. ERNST

MEMBERS
American Institute of Certified Public Accountants
Society of Louisiana Certified Public Accountants

110 Veterans Memorial Blvd., Suite 170
Metairie, LA 70005
(504) 837-5434
FAX (504) 837-5435
www.hienzmacaluso.com

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

December 29, 2011

To the Board of Directors of
Preservation Alliance of New Orleans, Inc.
d/b/a Preservation Resource Center of New Orleans
New Orleans, Louisiana

We have audited the accompanying consolidated statements of financial position of Preservation Alliance of New Orleans, Inc. d/b/a Preservation Resource Center of New Orleans (PRC) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PRC as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011, on our consideration of PRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of PRC taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

Hienz & Macaluso, LLC
Metairie, LA

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010**

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 861,641	\$ 917,128
Grants receivable	1,586,488	1,419,535
Other receivable	1,014,067	536,715
Investments	990,186	1,274,699
Pledges receivable, net	42,400	44,900
Other assets - real estate	3,285,378	2,885,921
Inventory	107,714	125,357
Property and equipment, net	2,243,485	2,278,049
Total assets	<u>\$ 10,131,359</u>	<u>\$ 9,482,304</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 410,033	\$ 258,504
Accrued vacation	73,557	97,276
Advances	192,704	38,675
Lines of credit	2,160,441	1,190,341
Capital lease obligations	24,715	37,708
Notes payable	384,012	472,799
Total liabilities	<u>3,245,462</u>	<u>2,095,303</u>
Net assets		
Unrestricted		
Undesignated	5,315,555	4,791,088
Designated	1,410,100	1,888,725
Temporarily restricted	160,242	707,188
Total net assets	<u>6,885,897</u>	<u>7,387,001</u>
Total liabilities and net assets	<u>\$ 10,131,359</u>	<u>\$ 9,482,304</u>

The accompanying notes are an integral part of these consolidated financial statements

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

	Unrestricted	Temporarily Restricted	Total
REVENUE, GRANTS AND OTHER SUPPORT			
Contributions - membership & sustaining	\$ 1,346,062	\$ -	\$ 1,346,062
Grants	3,848,834	123,660	3,972,494
Special events	653,943	-	653,943
Fees, sales and other revenue	791,500	-	791,500
Gain (loss) on the sale of real estate	(151,586)	-	(151,586)
Net assets released from restrictions			
Satisfaction of purpose restrictions	670,606	(670,606)	-
Write-down of restricted pledges receivable	-	-	-
Total revenue, grants and other support	<u>7,159,359</u>	<u>(546,946)</u>	<u>6,612,413</u>
EXPENSES			
Program services			
Preservation	421,739	-	421,739
Warehouses/Salvage Store/Deconstruction	413,419	-	413,419
Rebuilding Together	3,907,645	-	3,907,645
Operation Comeback	1,040,443	-	1,040,443
Preservation in Print	279,263	-	279,263
Education, Outreach & African-American Heritage	118,247	-	118,247
Total program services	<u>6,180,756</u>	<u>-</u>	<u>6,180,756</u>
Supporting services.			
Management and general	617,109	-	617,109
Fund raising	315,652	-	315,652
Total supporting services	<u>932,761</u>	<u>-</u>	<u>932,761</u>
Total expenses	<u>7,113,517</u>	<u>-</u>	<u>7,113,517</u>
CHANGE IN NET ASSETS	45,842	(546,946)	(501,104)
Net assets, beginning of period	6,679,813	707,188	7,387,001
Net assets, end of period	<u>\$ 6,725,655</u>	<u>\$ 160,242</u>	<u>\$ 6,885,897</u>

The accompanying notes are an integral part of these consolidated financial statements

PRESERVATION RESOURCE CENTER OF NEW ORLEANS CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2010			
	Unrestricted	Temporarily Restricted	Total
REVENUE, GRANTS AND OTHER SUPPORT			
Contributions - membership & sustaining	\$ 1,297,647	\$ -	\$ 1,297,647
Grants	2,934,255	1,010,384	3,944,639
Special events	506,927	-	506,927
Fees, sales and other revenue	834,719	-	834,719
Gain (loss) on the sale of real estate	(43,048)	-	(43,048)
Net assets released from restrictions:			
Satisfaction of purpose restrictions	883,085	(883,085)	-
Write-down of restricted pledges receivable	-	-	-
Total revenue, grants and other support	<u>6,413,585</u>	<u>127,299</u>	<u>6,540,884</u>
EXPENSES			
Program services:			
Preservation	524,680	-	524,680
Warehouses/Salvage Store/Deconstruction	460,811	-	460,811
Rebuilding Together	2,373,634	-	2,373,634
Operation Comeback	963,135	-	963,135
Preservation in Print	272,101	-	272,101
Education, Outreach & African-American Heritage	127,587	-	127,587
Total program services	<u>4,721,948</u>	<u>-</u>	<u>4,721,948</u>
Supporting services			
Management and general	614,287	-	614,287
Fund raising	336,647	-	336,647
Total supporting services	<u>950,934</u>	<u>-</u>	<u>950,934</u>
Total expenses	<u>5,672,882</u>	<u>-</u>	<u>5,672,882</u>
CHANGE IN NET ASSETS	<u>740,703</u>	<u>127,299</u>	<u>868,002</u>
Net assets, beginning of period	<u>5,939,110</u>	<u>579,889</u>	<u>6,518,999</u>
Net assets, end of period	<u>\$ 6,679,813</u>	<u>\$ 707,188</u>	<u>\$ 7,387,001</u>

The accompanying notes are an integral part of these consolidated financial statements

PRESERVATION RESOURCE CENTER OF NEW ORLEANS CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2011 AND 2010		
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (501,104)	\$ 868,002
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	181,084	216,095
Gain (loss) on sale of property held for sale	151,586	43,048
Gains (losses) on investments	(185,944)	(136,247)
Changes in assets and liabilities		
Grants receivable	(166,953)	(1,218,810)
Other receivables	(477,352)	(86,270)
Pledges receivable	2,500	21,800
Inventory	17,643	21,855
Accounts payable and accrued liabilities	151,529	(17,986)
Accrued vacations	(23,719)	(30,508)
Advances	154,029	(366,240)
Net cash used by operating activities	<u>(696,701)</u>	<u>(685,261)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale/maturity of investments	580,139	346,394
Purchases of investments	(109,682)	(41,230)
Proceeds from sale of other assets - real estate	183,500	400,500
Purchases of other assets - real estate	(734,543)	(1,361,943)
Purchases of property and equipment	<u>(146,520)</u>	<u>(144,143)</u>
Net cash used in investing activities	<u>(227,106)</u>	<u>(800,422)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in lines of credit	970,100	616,282
Proceeds from notes payable	-	160,000
Payments on notes payable	(88,787)	(140,950)
Payments on capital lease obligations	<u>(12,993)</u>	<u>(9,126)</u>
Net cash provided (used) by financing activities	<u>868,320</u>	<u>626,206</u>
Net increase (decrease) in cash and cash equivalents	<u>(55,487)</u>	<u>(859,478)</u>
Cash and cash equivalents, beginning of year	917,128	1,776,606
Cash and cash equivalents, end of year	<u>\$ 861,641</u>	<u>\$ 917,128</u>
Supplemental Disclosures:		
Interest paid	<u>\$ 55,291</u>	<u>\$ 10,161</u>

The accompanying notes are an integral part of these consolidated financial statements

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Founded in 1974, Preservation Alliance of New Orleans, Inc. d/b/a Preservation Resource Center of New Orleans (PRC) is a nonprofit organization, which preserves and enhances targeted historical neighborhoods of New Orleans through community revitalization projects. The accompanying consolidated financial statements also include the accounts of JRF, Inc., a Louisiana for-profit corporation that is a wholly owned subsidiary of PRC, which is dormant. JRF, Inc. was utilized to purchase and renovate selected properties in targeted neighborhoods to enhance PRC's revitalization efforts. All intercompany transactions have been eliminated.

The following program and supporting services are included in the accompanying consolidated financial statements:

Preservation

The Preservation Program encompasses PRC's various general activities related to promoting the preservation of historic properties and districts, including advocacy before regulatory authorities, public awareness efforts, development of preservation plans for specific properties and districts, and related activities. This program is funded wholly by contributions from PRC's donors.

Rebuilding Together

PRC's most significant volunteer event involves the donation of time and materials by contractors, private businesses and individuals, and retailers in an intensive effort to renovate historic residential properties owned by low-income and/or disabled individuals, as well as senior citizens. Since the effects of Hurricane Katrina on August 29, 2005, the renovations are on an ongoing basis throughout the year due to the increased need in the city. Previously, the rebuilding efforts were an annual two-week effort and on a less intensive scale throughout the remainder of the fiscal year. This program is funded by a combination of contributions, corporate sponsorships and government grants.

Warehouse, Salvage Store and Deconstruction

The PRC has expanded into sale of salvage items through the salvage store, which accepts donations of architecturally significant items to be sold for reuse in the rebuilding of the city by the public. Additionally, the PRC has implemented a Deconstruction Program, which is only utilized as a last attempt towards historic preservation. This program selectively salvages items from homes that are slated for demolition. The PRC also provides these items to the public for use in rebuilding homes, as well as utilizes some of the materials in the restoration of

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

buildings through the Operation Comeback and Rebuilding Together Programs. These programs are funded by salvage store sales, in-kind material and monetary donations, as well as grants.

Operation Comeback

Operation Comeback comprises PRC's activities directed towards the acquisition and renovation of blighted historic properties. This program is funded primarily by corporate and individual contributions.

Preservation in Print

Preservation in Print fosters knowledge, stimulates interest, and facilitates participation in public and private historic preservation through the printing and publication of PRC's quarterly newsletter. This program is funded by a combination of contributions from advertising revenues and government grants.

Education and Outreach

Education and Outreach focuses on outreach programs – workshops, lectures, tours, print and electronic information - regarding building acquisition and restoration, cultural heritage, historic architecture and neighborhoods, preservation programs and incentives, with a focus on African-American Heritage (AAH). AAH focuses on the identification and preservation of the homes and significant structures frequented by New Orleans' early jazz musicians. AAH's main purpose is to research, identify, and landmark these homes and other structures.

Management and General

Management and general supporting services include the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of PRC's program strategy; secure proper administrative functioning of the board of directors; maintain competent legal services for the program administration of PRC; and manage the financial and budgetary responsibilities of PRC.

Fund Raising

Fund raising provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations.

PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Restrictions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Similarly, PRC reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions that are restricted for the acquisition of property are reclassified to unrestricted assets when the related property is acquired, unless the donor explicitly attaches a time restriction to the contribution. PRC's temporarily restricted net assets relate to contributions and unconditional promises to give to its capital fundraising campaign, as discussed in Note 2.

Revenue

Contributions are generally recorded only upon receipt, unless a pledge of contribution has been received and confirmed. Such pledges are recognized, when the pledge is made, at the net present value of the future contributions. All contributions are considered to be available for unrestricted use unless restricted specifically by the donor.

Donated Services and Materials

Numerous skilled laborers, such as carpenters, plumbers, and electricians, along with several hardware retail outlets and property owners, make significant donations of time, materials and warehousing space in conjunction with various revitalization projects. Skilled labor rates, retail values of donated materials and fair value of rental warehousing space are used in valuing and recording these contributions. The value of these contributions for fiscal years 2011 and 2010 was estimated to be approximately \$85,158 and \$61,551, respectively. These amounts are included in contributions, as well as Operation Comeback, Rebuilding Together and Warehouse program services in the accompanying consolidated financial statements.

In addition, volunteers from throughout the community provide unskilled labor in conjunction with Rebuilding Together's project (formerly known as Christmas in October), as well as the Operation Comeback program. The value of these services, which was estimated to be approximately \$1,057,967 and \$1,471,180 for both fiscal years 2011 and 2010, respectively, are not recognized in the accompanying consolidated financial statements due to the unspecialized nature of these services.

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Cash and Cash Equivalents

For the purposes of the statement of cash flows, PRC considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. PRC's cash and cash equivalents at June 30, 2011 and 2010 included approximately \$414,805 and \$588,595, respectively, of investments in money market funds.

If the grantor makes it a requirement, the PRC deposits restricted grant monies into a designated account.

Investments

Investments at June 30, 2011 and 2010 consisted of fixed income investments totaling \$292,034 and \$451,352, respectively, and equity investments valued at \$ 698,152 and \$823,347, respectively. Investments are recorded at fair value. In fiscal 2011 and 2010, interest income on investments was \$36,866 and \$46,942, respectively. Net appreciation in investments was \$185,944 and \$136,247 for fiscal years 2011 and 2010, respectively.

Other Assets – Real Estate

Other assets – real estate is comprised of blighted historic properties PRC acquires and renovates, with the intention to resell. These properties are carried at their historical cost, including renovation. Donated assets are recorded at fair value at the time of their donation.

Property and Equipment

Property and equipment are recorded at cost. Donated assets are recorded at fair value at the time of their donation. PRC capitalizes all expenditures for equipment in excess of \$500. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets (5 to 25 years). Depreciation expense was \$181,084 and \$216,095 for the years ended June 30, 2011 and June 30, 2010, respectively.

Inventory

The Rebuilding Together program maintains a PRC warehouse for the storage of purchases of stock items to be used in repairing houses. For these stock items, the procedure was to expense all of these items as Repair Expense – Paint, Lumber-Misc, however, this did not prove to be the most accurate method in terms of costing out these types of items to the various houses and funders for which these items were purchased.

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Therefore, as of July 1, 2008, the Rebuilding Together personnel took a physical inventory of these stock items and provided the accounting department a list for reclassification into the newly created inventory account and a new computerized inventory management system. The prices are at the weighted average costs of the purchases based on the review of the previous months' purchase invoices. The value of inventory for Rebuilding Together's repairs was \$29,890 and \$38,873 as of June 30, 2011 and 2010, respectively.

Additionally, the warehouse is now used for Deconstruction Program's salvaged items sales.

During fiscal year 2009, the PRC implemented the computerized inventory management system to track the releases from inventory and assign the cost of the items to repair work being done at specific houses, as well as track the items in the salvage store. The basis for the salvage store inventory values are based on the physical count and a mid-range price based on the previous sales history in which the warehouse staff determined low, mid and high ranges. The value of inventory for the salvage store items was \$77,824 and \$86,484 as of June 30, 2011 and 2010, respectively.

Income Taxes

PRC is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code and from state income taxes under Section 121 (5) of Title 47 of the Louisiana Revised Statutes of 1950; it is not a private foundation.

JRF, Inc., a wholly owned subsidiary of PRC which is currently dormant, is a Louisiana for-profit corporation subject to federal and state income tax laws.

Advertising

PRC expenses advertising costs as incurred. During fiscal 2011 and 2010, PRC's advertising costs charged to expense were \$17,265 and \$70,669, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. PRC's estimates include those regarding the fair value of contributed services and the collectibility of receivables.

Reclassifications

Certain amounts from 2010 have been reclassified to conform to the 2011 presentation.

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable are to be used for the purchase, renovation and subsequent debt repayment of PRC's headquarters and warehouse. Subsequent to year-end 2005, management performed an analysis of pledges receivable and determined that a \$40,000 pledge appeared uncollectible and should be written off, and a \$200,500 pledge should be reserved due to uncertainties about its collectibility and the timing of future receipts. Long-term promises are not discounted to net present value since such amounts would be immaterial to the financial statements.

Unconditional promises to give at June 30 were receivable as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$242,400	\$244,900
Receivable in one to five years	-	-
	<u>242,400</u>	<u>244,900</u>
Less discount	-	-
	<u>242,400</u>	<u>244,900</u>
Less allowance for uncollectible account	<u>200,000</u>	<u>200,000</u>
Pledges receivable, net	<u><u>\$ 42,400</u></u>	<u><u>\$ 44,900</u></u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment were comprised of the following at June 30.

	<u>2011</u>	<u>2010</u>
Land	\$ 448,087	\$ 448,087
Buildings and improvements	2,401,422	2,278,316
Office furniture and equipment	445,153	513,307
Vehicles	<u>125,599</u>	<u>141,777</u>
	3,420,261	3,381,487
Less: Accumulated depreciation and amortization	<u>1,176,776</u>	<u>1,103,438</u>
	<u><u>\$2,243,485</u></u>	<u><u>\$2,278,049</u></u>

NOTE 4 - LINES OF CREDIT

In order to achieve PRC's goal of revitalizing targeted historical neighborhoods, PRC purchases homes for renovation in those targeted neighborhoods. Funding these projects often requires PRC to enter into line of credit agreements. The specific property under renovation is used as collateral for these lines of credit. During fiscal years 2011 and 2010, interest incurred of \$0 and \$0, respectively, was capitalized relating to these properties.

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 4 - LINES OF CREDIT (cont'd)

At June 30, 2011, PRC had three lines of credit available with a bank totaling \$3,850,000, bearing interest rates of 4% and 5% and secured by the first mortgage on specific properties held for sale. The outstanding balances on the current lines of credit at June 30, 2011 totaled \$2,160,441.

At June 30, 2010, PRC had two lines of credit available with a bank totaling \$1,450,000, bearing interest rate of 5% and secured by the first mortgage on specific properties held for sale with a total net book value of \$1,999,889. The outstanding balance on the current lines of credit at June 30, 2010 totaled \$1,190,341.

NOTE 5 - CAPITAL LEASE OBLIGATIONS

During fiscal 2007, PRC replaced its two photocopiers under capital lease obligations from the prior year with newly acquired copiers purchased under capital leases for \$52,076. During fiscal 2009, one copier was disposed of at \$21,633, and a new copier was acquired under a capital lease for \$43,157. The copiers are included in property and equipment in the accompanying consolidated statements of financial position, and the related amortization is included in accumulated depreciation and amortization and depreciation and amortization expense. The net book value at June 30, 2011 and 2010 was \$20,703 and \$32,599, respectively. Future minimum lease payments under the capital lease for the years succeeding June 30, 2011, are as follows:

2012	\$ 13,848
2013	10,668
2014	<u>2,667</u>
Total minimum lease payments	27,183
Less amounts representing interest	<u>2,468</u>
Present value of minimum capital lease payments	<u>\$ 24,715</u>

NOTE 6 - NOTES PAYABLE

In June 2009, the PRC entered into a note payable with a private entity for \$188,000 with a stated interest of 6% per annum from date and was amortized over 10 years and will mature in five (5) years. It is due in monthly installments of principal and interest of \$2,087 and is collateralized by the land and buildings of PRC's headquarters. The outstanding balance on the note was \$158,825 and \$173,849 at June 30, 2011 and 2010, respectively.

On August 10, 2007 and August 13, 2007 the PRC entered into two note payable agreements for the purchase of two Chevrolet vans to assist in the transportation of materials for the Rebuilding Together program. The Chevrolet van purchased on 8/10/07 carries a stated interest rate of 10.40%, with sixty payments of \$494 each. The Chevrolet van purchased on 8/13/07 carries a stated interest rate of 11.90% for 60 payments of \$594 each. The payments started in October 2007, and both will mature as of September 2012. The outstanding balances on these notes were \$7,711 and \$24,932 at June 30, 2011 and 2010, respectively.

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 6 - NOTES PAYABLE (cont'd)

On November 1, 2008, the PRC entered into a note payable agreement for the purchase of two identical F-250 Ford trucks to further assist in the transportation of materials for the Rebuilding Together program. Both trucks carry a stated interest rate of 9.142% with sixty payments of \$390 each. The payments started in November 2008, and both will mature as of October 2013. The outstanding balance on this note was \$14,077 and \$17,418 at June 30, 2011 and 2010, respectively.

On March 20, 2009, the PRC entered into a Memorandum of Understanding with the New Orleans Redevelopment Authority ("NORA") wherein PRC purchased twenty properties from NORA in order to rehab the properties no later than two hundred seventy (270) days from NORA's providing a clear title to properties. The properties are then to be sold by the PRC for homeownership. The purchase price was the sum of \$168,000, of which the PRC deposited 20% upon execution of the agreement. Anytime the PRC executes an act of sale, it will pay the balance due upon that property. As of June 30, 2011 and 2010, the remaining balance due was \$143,400 and \$146,600, respectively.

During fiscal year 2009, the PRC entered into four (4) "Adopt-a-Home" Agreements wherein the lender assists the PRC in its mission by providing interest free loans for the acquisition for renovation, and construction of the PRC properties. The dates and amounts are as follows: July 31, 2008 (\$22,400), September 16, 2008 (three agreements at \$35,000, \$35,000 and \$10,000). The maturity date of the Note shall be the earlier of (i) 18 months from the date of the issuance of the building permit for the property or (ii) date of sale of property. At the end of the term of the loan if the house is not complete or sold PRC guaranteed it would return the funds within thirty (30) days of the Grantor's request. Whitney National Bank agreed to provide take-out financing on all "Adopt-a-Home" loans. As of June 30, 2011 and 2010, the remaining balance due was \$60,000 and \$110,000, respectively.

The total maturities of PRC's notes payable for the fiscal years ending June 30 are as follows:

2012	\$ 232,364
2013	8,688
2014	<u>142,960</u>
Total	<u>\$ 384,012</u>

PRC incurred interest expense of \$55,291 and \$35,678 during fiscal 2011 and 2010, respectively, of which \$0 and \$0, respectively, were capitalized in properties.

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 7 - DESIGNATED FUNDS

Periodically, PRC's board of directors designates certain funds to be used for specified purposes. The following designated funds had been established at June 30:

<u>Fund</u>	<u>Purpose</u>	<u>2011</u>	<u>2010</u>
Quasi-Endowment Fund	Quasi-Endowment	\$1,215,957	\$1,701,608
Aron Fund	Historic Restoration	899	24,813
OC Revolving Fund	Historic Restoration	4,042	617
Historic Faubourg St. Mary Fund	Easement Maintenance	3,628	3,628
Easement Donation Fund	Easement Maintenance	185,406	157,891
OC Equity Fund	Historic Restoration	168	168
		<u>\$1,410,100</u>	<u>\$1,888,725</u>

These funds are primarily included in cash and cash equivalents and investments in the accompanying consolidated statements of financial position.

NOTE 8 - GOVERNMENT GRANTS

Government grants require the fulfillment of certain conditions as set forth in the grant instruments. PRC intends to fulfill the conditions of all grants, recognizing that failure to fulfill the conditions could result in the return of the funds to grantors.

NOTE 9 - PENSION PLAN

PRC offers a defined contribution 403(b) plan to all employees who are at least twenty-one years of age. Participants are allowed to contribute up to a maximum of 15% of their total compensation.

Additionally, PRC provides a simplified employee plan (the Plan) to its employees. The Plan provides, to all employees who have been with PRC for a minimum of three years, an annual contribution to an Individual Retirement Account (IRA) equal to 2.5% of the employees' current gross eligible compensation. Contributions to the Plan totaled \$13,321 and \$9,882 for fiscal 2011 and 2010, respectively.

NOTE 10 - CONCENTRATIONS

PRC places its cash and cash equivalents with high credit quality institutions in the greater New Orleans area. Most accounts at those institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year, the amounts on the deposit exceeded the federally insured limits.

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments

The following methods and assumptions were used by the PRC in estimating its fair value disclosures for financial instruments:

- Cash, cash equivalents, short-term unconditional promises to give, and notes payable
The carrying amounts reported in the statement of financial position approximate fair values because of the relatively short maturities of those instruments.
- Short-term and quasi-endowment investments The fair values of investments are based on quoted market prices for those and similar investments.
- Long-term unconditional promises to give The fair value of promises to give that are due in more than one year is estimated by discounting expected future cash flows using a rate of return based on the yield of a U.S Treasury security with a maturity date similar to the expected collection period

The estimated fair values of the PRC's financial instruments are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets		
Cash and cash equivalents	\$ 861,641	\$ 861,641
Investments	990,186	990,186
Unconditional promises to give	42,400	42,400
Financial Liabilities:		
Notes Payable	384,012	384,012

Fair Value Measurements

The following table presents the PRC's fair value hierarchy for the financial assets measured at the fair value on a recurring basis

	Fair Value Measurements at Reporting Date Using:	Quoted Prices in Active Markets for Identical Assets (Level 1)
	<u>Fair Value</u>	<u>(Level 1)</u>
Investments	\$990,186	\$990,186

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 29, 2011, and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

NOTE 13 – RELATED PARTY TRANSACTIONS

PRC is provided legal services by the current treasurer of the Board of Directors at costs discounted from what the services would cost at market value. During the fiscal year ended June 30, 2011, PRC paid the individual \$25,468 for legal services.

In addition, the treasurer advanced PRC \$25,000 to be repaid no later than December 31, 2011. This amount has not been repaid as of the date of this report.

PRC was provided architectural services by a current member of the Board of Directors at costs discounted from what the services would cost at market value. During the year ended June 30, 2011, PRC paid the individual \$40,103 for these services and owed \$20,057 as of June 30, 2011.

NOTE 14 – UNCERTAIN INCOME TAXES

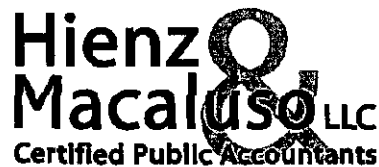
On July 1, 2009, PRC adopted the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB ASC. The implementation of this topic had no impact on the statement of financial position or statement of activities.

PRC's 2008 and 2009 tax returns have been filed appropriately. As of December 29, 2011, PRC has been approved for an extension to file their 2010 tax return. PRC recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. PRC's tax filings are subject to audit by various taxing authorities. PRC's open audit periods are 2008 and 2009. Management has evaluated PRC's tax position and concluded that PRC has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

NOTE 15 – CONSERVATION EASEMENTS

PRC holds conservation easements placed on various properties. At June 30, 2011 and 2010, approximately 116 such easements were held. No value has been assigned to these easements in the financial statements because PRC does not have ownership rights to the underlying property.

PRESERVATION RESOURCE CENTER OF NEW ORLEANS SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2011		
Grantor/Pass Through Grantor/Program Title	CFDA Number	Disbursements/ Expenditures
UNITED STATES DEPARTMENT OF THE INTERIOR NATIONAL PARK SERVICE Pass through <u>State of Louisiana, Department of Culture, Recreation and Tourism</u> Historic Preservation Fund	15 904	\$ 30,000
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT <u>CDBG Entitlement Grants Cluster:</u> Pass through <u>City of New Orleans Division of Housing and Neighborhood Development</u> HSNG - Preservation Resource Center CD# 10-027 Community Development Block Grant	14 218	\$ 1,192,298 <u>1,192,298</u>
<u>CDBG State-Administered Cluster:</u> Pass through <u>Louisiana Housing Finance Agency</u> Community Development Block Grant	14 228	1,341,694
<u>New Orleans Redevelopment Authority</u> Community Development Block Grant	14 228	199,561
Total CDBG State-Administered Cluster		<u>1,541,255</u>
TOTAL FEDERAL AWARDS		<u>\$ 2,763,553</u>
NOTES TO SCHEDULE <u>Basis of Presentation</u> The Schedule of Expenditures of Federal Awards includes the federal grant activity of Preservation Resource Center of New Orleans (PRC) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, <u>Audits of States, Local Governments, and Non-Profit Organizations</u> PRC's federal awards are operated on a cost reimbursement basis whereby PRC applies for reimbursement of costs incurred in conjunction with program activities. Accordingly, this schedule presents, on the accrual basis of accounting, the revenues earned through the expenditure of funds in conjunction with these grants <u>Major Programs</u> Major programs are identified in the Summary of Auditors' Results section of the Schedule of Findings and Questioned Costs		



ROBERT W. HIENZ, C P A
ANTHONY J. MACALUSO, JR., C P A

DAVID V. ERNST

MEMBERS
American Institute of Certified Public Accountants
Society of Louisiana Certified Public Accountants

110 Veterans Memorial Blvd., Suite 170
Metairie, LA 70005
(504) 837-5434
FAX (504) 837-5435
www.hienzmacaluso.com

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

December 29, 2011

To the Board of Directors of
Preservation Alliance of New Orleans, Inc
d/b/a Preservation Resource Center of New Orleans
New Orleans, Louisiana

We have audited the consolidated financial statements of Preservation Alliance of New Orleans, Inc d/b/a Preservation Resource Center of New Orleans (PRC), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PRC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of PRC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PRC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

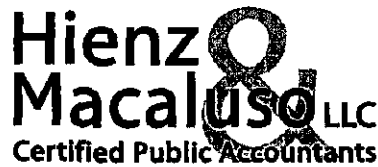
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

Compliance

As part of obtaining reasonable assurance about whether PRC's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, management, the Legislative Auditor for the State of Louisiana and various federal and state audit agencies and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Hienz & Macaluso, LLC
Metairie, LA



ROBERT W. HIENZ, C P A
ANTHONY J. MACALUSO, JR., C P A

DAVID V. ERNST

MEMBERS
American Institute of Certified Public Accountants
Society of Louisiana Certified Public Accountants

110 Veterans Memorial Blvd., Suite 170
Metairie, LA 70005
(504) 837-5434
FAX (504) 837-5435
www.hienzmacaluso.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

December 29, 2011

To the Board of Directors of
Preservation Alliance of New Orleans, Inc
d/b/a Preservation Resource Center of New Orleans
New Orleans, Louisiana

Compliance

We have audited the compliance of the Preservation Alliance of New Orleans, Inc d/b/a Preservation Resource Center of New Orleans (PRC), with the types of compliance requirements described in the U S Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. PRC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of PRC's management. Our responsibility is to express an opinion on PRC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PRC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on PRC's compliance with those requirements.

In our opinion, PRC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of PRC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered PRC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PRC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the Legislative Auditor for the State of Louisiana and various federal and state audit agencies and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24.513, this report is distributed by the Legislative Auditor as a public document.

Hienz & Macaluso, LLC
Metairie, LA

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

A. SUMMARY OF AUDITOR'S RESULTS:

Financial Statements

- | | |
|---|-------------|
| 1) Type of auditor's report | Unqualified |
| 2) Compliance and internal control over financial reporting | |
| a) Material weaknesses identified | No |
| b) Significant deficiencies identified | No |
| c) Non-compliance noted | No |
| 3) Management letter comments | No |

Federal Awards

- | | |
|--|-------------|
| 4) <u>Internal control over major programs</u> | |
| Material weaknesses identified | No |
| Significant deficiencies identified | No |
| 5) Type of auditor's report issued on compliance for major federal programs | Unqualified |
| 6) Audit findings disclosed that are required in accordance with
OMB Circular A-133 | No |
| 7) Identification of major programs | |
| 14 218 – Community Development Block Grants | |
| 14 228 – Community Development Block Grants | |
| 8) Dollar threshold used to distinguish between Type A and Type B programs | \$300,000 |
| 9) Auditee qualified as a low-risk auditee under OMB Circular A-133 | Yes |

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

B. FINANCIAL STATEMENT FINDINGS

Compliance and Internal Control over Financial Reporting

None.

**PRESERVATION RESOURCE CENTER OF NEW ORLEANS
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Compliance and Internal Control over Financial Reporting

Compliance and Internal Control Finding:

2010-1 Late Submission of Audited Financial Statements

Under Louisiana statute, PRC was required to have an annual audit of its financial statements prepared in accordance with U S generally accepted accounting principles and submit it to the Legislative Auditor by December 31, 2010. PRC did not meet the deadline for submitting its annual audit to the Legislative Auditor, resulting in noncompliance with Louisiana laws. The failure to have the annual audit completed in a timely fashion was primarily due to a change in the Chief Financial Officer as well as a lack of proper procedures to ensure that the financial records are closed on a timely basis

We recommended that PRC establish necessary procedures to ensure that its financial statements are submitted to the Legislative Auditor in accordance with state statute

This finding was resolved in the current year.